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Idaho Brand Board

Management Report on Internal Control

Issued: October 23, 2003
Fiscal Year: 2000, 2001, and 2002



EXECUTIVE SUMMARY LEGISLATIVE AUDITS

STATE BRAND BOARD

PURPOSE AND SCOPE. In planning and making our audit of the statewide basic financial statements, we performed certain audit procedures to evaluate the effectiveness of the State Brand Board's internal control design and operation. Consequently, the limited scope of our procedures does not allow us to give an opinion on the Board's internal control system. Accordingly, we do not express an opinion or ensure that all instances of internal control weaknesses were disclosed.

Our purpose was to indicate where internal controls could be strengthened to help ensure accurate financial statements and data. This evaluation, together with other evaluations and various audit procedures applied at other agencies, allows us to express an opinion on the statewide basic financial statements prepared by the State Controller's Office.

CONCLUSION. The three findings and recommendations noted as a result of applying the audit procedures referred to above, if addressed, would improve and strengthen the Board's internal control structure and operating efficiency. These matters are discussed in the findings and recommendations section of this report.

FINDINGS AND RECOMMENDATIONS. We have summarized the findings and recommendations below. The recommendations are made to assist management in fulfilling its responsibility to establish and maintain adequate internal controls.

Finding #1. Use of State purchasing cards (P-card) is not always supported with adequate documentation.

The Board uses P-cards for miscellaneous purchases, cash advances, and travel expenses. From November 2000 to May 2003, purchases and advances totaled \$44,000. The Board could not provide supporting documentation to show that purchases or cash advances totaling \$11,000 were for Board business. For example, \$2,100 of P-card advances (automatic teller machine withdrawals) had no documentation showing how the advances were used. Similarly, hotel charges and other P-card purchases did not have documentation to show they were valid and proper Board expenditures.

We cannot determine why the Board does not always obtain supporting documentation for P-card transactions. However, we believe one reason is that the Board does not make complete accounting entries in the State accounting system. In order to make the complete entries, it is necessary to obtain supporting documentation to record P-card purchases to the correct expenditure categories.

We recommend that the Board obtain supporting documentation to show that P-card transactions are for valid Board business and make complete accounting entries in the State accounting system.

Finding #2. The collection of inspection fees can be improved. Each year the Board completes about two million brand inspections and records collections from inspections totaling about \$4.4 million.

Inspections, which are usually paid by sellers, are completed when ownership of livestock changes. The Board either receives payment immediately for inspections or establishes an account so that it can bill and collect the fees at a later date.

In some cases, the Board neither collects the fees nor establishes an account receivable in the name of the seller. Instead, accounts receivable are established in employees' names and monthly statements are sent to the employees instead of the sellers. Employees carry the accounts receivable with the intent of collecting the fees at a later date. However, many fees were more than one year past due and never collected. Additionally, collected inspection fees are not always deposited in a timely manner. For example, one employee held more than \$100 in cash for two months before it was deposited.

We recommend that the Board establish accounts receivable in the name of the seller and deposit collections in a timely manner.

Finding #3. Compliance with State travel laws and regulations is not always adequate. Although the estimated travel costs of \$60,000 are not material to the Board's financial operations, it is still important to comply with State travel regulations. The following explains where compliance can be improved:

1. Idaho Code, Section 67-2006, requires the submittal of travel vouchers showing the purpose and authorization for travel. Board employees do not always submit travel vouchers. For example, one employee has yet to submit travel vouchers for several months.
2. State travel regulations are specific regarding employee meals. For example, the partial day meal rate for each meeting or training session attendee is allowed, provided that the meeting or training session has a published agenda, an intended duration of at least six hours, mandatory attendance, and at least five attendees. The Board provides meals for employees at informal meetings with no documentation to show compliance with State travel regulations.

Without travel vouchers, we cannot determine whether the travel was authorized, paid in accordance with State travel regulations, or was related to Board business. Similarly, we cannot determine if employees' meals were provided in accordance with State regulations.

We recommend that the Board submit travel vouchers in accordance with Idaho Code and State travel regulations, and attach all documentation to show meal allowances are in accordance with State travel regulations.

PRIOR FINDINGS AND RECOMMENDATIONS. The prior report had two findings and recommendations. The Board has implemented procedures to comply with both recommendations.

Prior Finding #1. Brand Board personnel did not always report time worked or time off. All Brand Board employees are now submitting time sheets that reflect their actual time worked and time off. **CLOSED.**

Prior Finding #2. The Brand Board did not complete a written contract for computer consulting services. Board management has obtained a written contract. **CLOSED.**

AGENCY RESPONSE. The Brand Board has reviewed the report, and its full response can be found in the Findings and Recommendation section of this report.

FINANCIAL SUMMARY. Although an opinion is not given on the financial data presented in this report, one is given on all State funds in the statewide Comprehensive Annual Financial Report that includes the financial data presented here.

The Brand Board operates with the use of two funds in accordance with Idaho Code. Operating Fund 0229-15 receives money from brand inspection certificates, ownership and transportation certificates, and collections for other entities. The money is used for administering Board operations, principally brand inspectors, and distributing collections to other entities. Recording-Holding Fund 0229-16 receives money from brand recording and renewals and the interest earned from investment of the fund's balance. The money is transferred to the Operating Fund when needed. A brief summary of the Board's cash basis financial activity for fiscal years 2000, 2001, and 2002 follows:

State Brand Board – Financial Statements

Fund 0229-15	Fiscal Year 2000	Fiscal Year 2001	Fiscal Year 2002
Beginning Cash Balance	\$244,600.92	\$420,202.85	\$427,127.12
Receipts	1,984,046.99	1,897,836.79	1,907,876.65
Transfers From Holding Fund	200,000.00	155,000.00	295,000.00
Collections for Other Entities	<u>2,487,339.25</u>	<u>2,564,176.42</u>	<u>2,409,137.15</u>
Total Funds Available	<u>\$4,915,987.16</u>	<u>\$5,037,216.06</u>	<u>\$5,039,140.92</u>
Disbursements			
Personnel Costs	\$1,685,243.25	\$1,717,680.92	\$1,833,985.01
Operating Expense	270,372.42	268,584.96	299,807.77
Capital Outlay	97,693.85	103,058.87	85,262.23
Transfers to Other Entities	<u>2,442,474.79</u>	<u>2,520,764.19</u>	<u>2,468,089.08</u>
Total Disbursements	<u>\$4,495,784.31</u>	<u>\$4,610,088.94</u>	<u>\$4,687,144.09</u>
Ending Cash Balance	<u>\$420,202.85</u>	<u>\$427,127.12</u>	<u>\$351,996.83</u>

Fund 0229-16	Fiscal Year 2000	Fiscal Year 2001	Fiscal Year 2002
Beginning Cash Balance	\$717,548.75	\$787,241.14	\$874,355.08
Receipts	234,649.20	198,380.00	207,740.00
Interest Income	<u>35,143.19</u>	<u>43,803.94</u>	<u>39,694.37</u>
Total Funds Available	<u>\$987,341.14</u>	<u>\$1,029,425.08</u>	<u>\$1,121,789.45</u>
Disbursements	\$100.00	\$70.00	\$0.00
Transfers Out	<u>200,000.00</u>	<u>155,000.00</u>	<u>295,000.00</u>
Total Disbursements	<u>\$200,100.00</u>	<u>\$155,070.00</u>	<u>\$295,000.00</u>
Ending Cash Balance	<u>\$787,241.14</u>	<u>\$874,355.08</u>	<u>\$826,789.45</u>

The Board collects 22¢ for livestock disease control (Animal Industries) and 4¢ for predator control for each animal inspected (Sheep Commission). The money, less a collection fee, is distributed monthly to the Idaho Department of Agriculture. The Board also collects \$1.00 for each head of cattle inspected for the Idaho Beef Council, and \$3.00 for each horse inspected for the Idaho Horse Board. An Unclaimed Animal Fund is used to retain proceeds from the sale of animals whose ownership cannot be determined. The proceeds are used to pay the cost of keeping and selling the livestock.

Following is the cash basis financial activity for other entities for fiscal year 2002:

	Animal Industries	Sheep Commission	Beef Council	Horse Board	Unclaimed Animal	Total
Beginning Cash (FY 01)	\$37,298.73	\$7,086.75	\$163,603.00	\$7,159.00	\$78,801.32	\$293,948.80
Receipts	436,034.76	82,846.67	1,752,442.45	52,955.30	84,857.97	2,409,137.15
Disbursements	463,713.39	78,163.33	1,843,523.45	55,635.30	26,999.41	2,468,034.88
Ending Cash	<u>\$9,620.10</u>	<u>\$11,770.09</u>	<u>\$72,522.00</u>	<u>\$4,479.00</u>	<u>\$136,659.88</u>	<u>\$235,051.07</u>

OTHER ISSUES. In addition to the findings and recommendations, we discussed other, less important issues which, if changed, would improve internal control, ensure compliance, or improve efficiency.

This report is intended solely for the information and use of the State Brand Board and the Idaho Legislature and is not intended to be, and should not be, used by anyone other than these specified parties.

We appreciate the cooperation and assistance given us by Larry Hayhurst, State Brand Inspector, and his staff.

QUESTIONS CONCERNING THIS DOCUMENT SHOULD BE DIRECTED TO:

Ray Ineck, CGFM, Supervisor, Legislative Audits
Thomas Haddock, CPA, CGFM, Managing Auditor

A copy of the complete audit report may be obtained through the Legislative Services Office, Legislative Audit Division, State Capitol Building, P.O. Box 83720, Boise, Idaho 83720-0054, or by calling 208-334-3540.
Please reference Report 33102.